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S E C R E T SECTION 01 OF 05 TEGUCIGALPA 001179

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TAGS: PREL PGOV ECON ETRD KCRM SMIG SNAR PINR VZ HO
SUBJECT: HONDURAN POPULIST PRESIDENT ZELAYA: MELISTAS PUSH
PETROCARIIBE AND MISSTEP; ANGST GROWING AMONG ELITE

REF: A. TEGUCIGALPA 1124
1B. TEGUCIGALPA 1131
1C. TEGUCIGALPA 1102 AND PREVIOUS
1D. TEGUCIGALPA 872
1E. TEGUCIGALPA 853
1F. TEGUCIGALPA 526

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Classified By: Ambassador Charles A. Ford;
Reasons 1.4 (b) and (d).

11. (C) Summary: Honduran President Jose Manuel "Mel" Zelaya and his Administration have now been in office approximately five months. Zelaya is acting more and more like a populist, and has stumbled through a series of missteps ever since his meeting with POTUS June 5. His willful mis-characterizations of the USG position on a possible PetroCaribe deal, his overreaction to the Embassy's one-week suspension of scheduling new visa appointments, and other gaffes have all served to take the shine off bilateral relations, which is something the "Melistas" have milked. The Minister of Finance's surprise resignation announcement fed a growing sense of disarray within the Zelaya Administration, which, combined with palpable stiffness in the bilateral relationship, led many outside Zelaya's inner circle to express concern to the Embassy. Post sees a distinct possibility that Zelaya may be seeking to supplant the fiscal disciplines of an IMF program with the relatively easy money that the financing conditions of PetroCaribe would provide. U.S. public and private statements questioning the wisdom of such a deal and noting the lack of transparency appear to be the major factor in slowing down a rush to PetroCaribe. While no irreversible decisions have been made, some could be made in July/August, and so Post will continue to reach out to the Zelaya Administration and encourage a responsible response by non-Melistas, in and out of the Liberal Party.

End Summary.

Zelaya and the "Melistas"

¶2. (C) Honduran President Jose Manuel "Mel" Zelaya Rosales is acting more like a populist as his Administration reaches five months of age, despite his protestations to the contrary to EmbOffs. The Embassy has tried repeatedly to establish a closer relationship with Zelaya, but whether due to his outdated Latin American "caudillo" style, his instinctive negative reaction to what he perceives as dependency on the U.S. (which on its own would probably be a good reaction), the influence of key left-leaning Melistas (particularly Liberal Party President Patricia Rodas, Foreign Minister Milton Jimenez, and Zelaya legal advisor Enrique Flores Lanza), or a combination of all three, Zelaya has not truly reciprocated. While professing his willingness to have an honest, open dialogue with the Embassy, and numerous meetings, Zelaya and his Melista advisors repeatedly fail to level with EmbOffs, ignoring former President Carlos Flores' (Liberal Party) advice to Zelaya not to try to fool the U.S. Embassy. This failure to be frank with the Embassy causes unnecessary friction that benefits no one (except perhaps key Melistas, who, according to some observers, may be seeking to have Zelaya "stand up" to the U.S.).

¶3. (C) As reported extensively, Zelaya and the Melistas seem dead-set on a PetroCaribe deal or something similar, though perhaps cloaked in the respectability of a "commercial" deal with PDVSA or its U.S. affiliate CITGO (ref C and previous). Despite statements to the contrary, Zelaya appears to be willing not to have an IMF agreement as a PetroCaribe-inspired deal appears to give Zelaya an alternate source of funding for populist spending measures (which will not actually lower the price of gas at the pump). Nationalists have recently renewed their claim that Zelaya

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received campaign funding from Venezuelan President Hugo Chavez, and claim that a PetroCaribe deal flows from Chavez's surreptitious electoral support. (Note: Others claim Zelaya (perhaps unwittingly) received campaign financing from narco-money, and claim that Zelaya is under intense pressure from narcos. If this allegation is true, Zelaya to his credit has not given narcos an inch. End Note.) Post attempted to run down various campaign financing rumors in fall 2005 but could neither prove, nor disprove, any of the allegations.

False Statements and Overreaction

¶4. (C) Zelaya has repeatedly misstated U.S. positions since his June 5 meeting with POTUS at the White House:
- Zelaya falsely claimed that POTUS had said the USG had no problem with a GOH PetroCaribe deal with Venezuela, a false perception that the Ambassador quickly corrected.
- Zelaya falsely claimed that POTUS had said the GOH's request to commercialize Soto Cano Air Base was "rational."
- After Zelaya met with U.S. oil companies in Washington, DC June 5, the Honduran Embassy announced that U.S. oil companies had decided to participate in the fuel bid; likewise, Flores Lanza made a similar announcement after the GOH met in Tegucigalpa with oil companies, including U.S. oil companies. Both statements were false.
- FM Jimenez announced that the USG had granted a one-month extension of the registration deadline for Temporary Protected Status (TPS), when in fact the GOH had only requested such an extension from DHS/CIS but no extension was granted.

¶5. (C) Zelaya sharply overreacted to the Embassy's one-week suspension of scheduling new visa appointments (ref A). The reaction came after effectively putting on the back burner repeated Embassy requests for high-level action by the GOH to

reform Honduran Immigration. While Zelaya did finally appoint German Espinal, a respected former Executive Director of the National Anti-Corruption Council, as Immigration Director, he had done nothing to make good on his repeated promise to move Immigration out of the Ministry of Government and Justice (led by Minister Jorge Arturo Reina, who had his U.S. visa revoked for ties to terrorist activities years ago). After the GOH quickly responded to the Embassy's action by briefing the Embassy on actions it had taken or would soon take to reform Immigration (and the National Registry of Persons), the Embassy reinstated scheduling visa appointments. Since then, Zelaya's rhetoric has cooled considerably, and the growing sense of trouble in bilateral relations has leveled off.

MinFinance Resigns - More Cabinet Changes?

¶ 16. (C) Minister of Finance Hugo Noe Pino announced June 16 he was stepping down effective in July (ref B). While he moves to Washington to be the Central American Representative to the Inter-American Development Bank, he was widely seen to be fleeing the disorderly Zelaya Administration, and the possible impending fiscal crisis if the GOH cannot pass the IMF review. Rumors are swirling of other possible cabinet changes, including predictably Minister of Health Orison Velasquez (who is mired in allegations of corruption and incompetence), but also disappointingly Minister of Public Security Alvaro Romero, who after a slow start and press criticism appears to be making real headway in his plan to reform the notoriously corrupt and ineffective police force, now that President Zelaya at long last agreed to his request and appointed Jorge Rodas Gamero as Vice Minister. Another rumor has Minister of the Presidency Yani Rosenthal being sacked. Rosenthal, a stand-in for his powerful

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businessman/politician father Jaime Rosenthal, is seen by many observers as compromised by his family business interests. He appears alternatively close to and estranged from the Melistas.

Non-Melista Establishment Reacts

¶ 17. (C) The Embassy has received private messages from key National Party figures, including Zelaya's 2005 opponent Porfirio "Pepe" Lobo, former President Ricardo Maduro, former Tegucigalpa Mayor Miguel Pastor (who is keeping a low profile) and his political strategist brother Sebastian, and current Tegucigalpa Mayor Ricardo Alvarez, expressing concern over the damage Zelaya and his team have done in what they see as a bungled managing of Honduras' most important bilateral relationship. Some ascribe this to the inexperience of FM Jimenez (who was not Zelaya's original choice as FM, but chosen without Embassy input after the Embassy objected to Reina's infamous past). Others see it as a conscious policy to cause friction that will burnish Mel's image as a nationalist/populist. Key media owners Rafael Ferrari, Jorge Canahuati, and Carlos Flores warned the Ambassador that the recent negative exchange in the press between the Embassy and Zelaya could make the U.S. look like the bad guy. Taking a different view, Lobo told the Ambassador that the average Honduran will side with the USG over the GOH in any rhetorical squabble when a Honduran politician such as Zelaya potentially puts at risk good relations that allow record levels of remittances from relatives in the U.S.

¶ 18. (C) Non-Melistas in the Liberal Party have also expressed concern, including Vice President Elvin Santos and the Flores camp, which includes President of Congress Roberto Micheletti. Ambassador met with Flores and Micheletti together recently and Flores voiced his frustration with the way Zelaya had handled the White House visit. Using a baseball metaphor, Flores said the U.S. had teed up a

softball and instead of hitting it out of the park, Zelaya had thrown his bat down and yelled "Chavez!" Flores has not talked with Zelaya since his POTUS meeting, and fears that the Melistas may be seeking an economic crisis, which will then lead to a political crisis, which suits the Melistas view of a failed system that warrants new solutions, such as the controversial "citizen power" initiative.

¶9. (C) VP Santos has been extremely candid with the Ambassador in expressing his frustration with Zelaya and the Melistas, while at the same time urging the Embassy to continue to help prod Zelaya to take decisions that are in the best interests of Honduras, not those that the Melistas want him to take to promote their agenda. Santos is close to Alvarez (the two are godparents to at least one of each other's children), and appears to reflect the centrist establishment's hope that continued engagement with Zelaya will ward off irreversible policy mistakes. Likewise, Catholic Church Cardinal Oscar Rodriguez told the Ambassador that he is concerned about potential political ramifications of a PetroCaribe deal, and wants to help lead the fervently Catholic Zelaya to more responsible policy decisions and a focus on poverty reduction.

Think Tanks and National Development Plans

¶10. (C) The Embassy has sought to encourage a positive response to the frustration voiced by various members of the elite about Zelaya and his Administration. The Embassy has met with:

- Irma de Fortin, President of University Jose Cecilio del Valle, who is seeking to set up a group of respected

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individuals (mostly Nationals), to perhaps develop a think tank to speak out on and study key issues for the future of Honduras; and

- FUNDEMOS, a new NGO akin to the GOH development organization FIDE, led by Nationalist luminaries from the Maduro Administration (among them former Minister of Defense Fred Breve, former Minister of the Presidency Ramon Medina Luna, and former President of the Central Bank Maria Elena Mondragon), is focused on economic development.

¶11. (C) The National Party's 2005 Presidential ticket of Pepe Lobo and VP candidate Mario Canahuati also professes to want to help shape non-partisan consensus plans for the economic and political development of Honduras. The two are increasingly seen as rivals within the party, but hopefully their rivalry and positioning for platforms for the 2009 presidential primary can help fuel real strategic thought about Honduras' economic development, which failed when last tried by UNDP in 2005 due to political rivalries between the two major parties. Interestingly in hindsight, a key issue cited by the Liberal Party in refusing to sign on to the UNDP plan was the lack of focus on the high cost of energy.

- Canahuati, President of the private sector umbrella organization COHEP, is conducting strategic planning on a COHEP vision for the development of Honduras. Canahuati and a group of leading businessmen, including wealthy mogul (and Liberal Party supporter) Miguel "Uncle Mike" Facusse, met with EmbOffs, and said that they sought to help the Zelaya Administration set a more productive course. Members of the group were clear that the private sector is "basically on (the USG) side" and that they see no good coming of picking a fight with the USG. They also recognized and (mildly) objected to the leftward drift of the current administration.

However, they pointed out, any significant breech between the USG and the GOH "only plays into Chavez's hands."

- Lobo, President of the National Party, said he is seeking to bring together four out of the five political parties (leaving the anti-globalist UD party on the sidelines), the Catholic Church, COHEP (not clear if Canahuati supports this plan), and the labor confederations to develop a national development plan. Lobo is seeking to work with former

President Flores and Micheletti as his Liberal Party counterparts; whether or not the Melistas and Zelaya will embrace this idea is debatable. Lobo said that he plans to have an impartial facilitator (although the name he mentioned, Juan Ferrera, is linked in many people's eyes to the National Party), and would have the G-16, led by the U.S. beginning July 1, as key observers and supporters of this effort. Cardinal Rodriguez told the Ambassador that he supports Lobo's idea, and that he has talked to Micheletti about it (an apparent warming of what had been a chilled relationship between the two).

Zelaya and Rodas vs. Flores

¶12. (C) Comment: Zelaya is alleged to have grown further apart from his wife, and reportedly the two are not currently living together. Rumors persist that Zelaya is having an affair with his longtime advisor Rodas, said to be the last one to meet with him late at night. Whether or not the rumors are true, what is clear is that Rodas is Zelaya's closest advisor, and is seen by many as Zelaya's choice for Liberal Party presidential candidate in 2009. Flores' antipathy to the Melistas, who he calls the "Halloween people," is widely known, and his newspaper's June house editorials have criticized Zelaya's recent missteps. Flores is the key counterweight to Zelaya within the party, and the person he decides to back for the 2009 presidential race might have Rodas as an opponent, if she can survive the internal party struggle that has led to calls for her ouster at a party conference this fall. (Besides Rodas, rumored

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Liberal Party candidates include Minister of Social Investment Marlon Lara, Central Bank President Gabriela Nunez, both candidates in 2005, Micheletti, and Flores' daughter Mary Flores, second to Micheletti in Congress).

¶13. (C) Comment continued: U.S. public and private statements questioning the wisdom of a PetroCaribe deal and noting the lack of transparency in the fuel bid process appear to be the major factor slowing down a rush to PetroCaribe. Zelaya's emissaries have repeatedly asked the Embassy to back off on the fuel issue, with Minister of Defense Aristedes Mejia going so far as to say that Zelaya would forget about commercialization of Soto Cano Air Base if the U.S. stopped talking about PetroCaribe. While no irreversible decisions have been made, some could be made in July/August (Congress goes back in session July 4). Post will continue to reach out to the Zelaya Administration in the hope they might see the light, encourage a responsible response by non-Melistas, in and out of the Liberal Party, and despite Zelaya's requests, continue to speak publicly when necessary on PetroCaribe, focusing on issues of transparency and policy rather than Chavez. End Comment.

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